



OCTFCU

We Put Educators First

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October 12, 2007

Ms. Jennifer J. Johnson, Secretary
Board of Governors, Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Comments on Proposed Changes to Regulation Z Open-End Lending,
Docket No. R-1286

Dear Ms. Johnson:

Orange County Teachers Federal Credit Union (OCTFCU) serves school employees in Southern California. We have more than 350,000 Members and \$7.3 billion in assets. OCTFCU is pleased to have the opportunity to comment on the Board's proposal to amend Regulation Z and open-end lending.

The proposed changes to the Commentary would eliminate open-end plans being treated as a whole and would require each sub-account under the plan to be self-replenishing. These changes will significantly alter the way we do business, forcing us to convert to closed-end lending, and would cause a significant negative impact on our Members in the form of inconvenience and higher loan rates. We also believe the proposed changes to revise the timing requirements for change-in-terms notices are unnecessary.

Multi-featured Open-End Plans

The stated goal of the proposed amendments is to improve the effectiveness of the disclosures that creditors provide to consumers at application and throughout the life of an open-end account. With open-end lending, Members receive periodic statements with information regarding their balances, transactions, finance charges, APR, etc. In contrast, closed-end lending does not require regular periodic statements. Open-end lending provides for more disclosure throughout the life of the open-end plan, which is the intended goal, and keeps Members more informed throughout the life of the advance.

Furthermore, nowhere in the stated reasons or objectives for the proposed changes are we able to determine that the Board identified a specific harm that they seek to correct by eliminating multi-featured open-end lending: no information or evidence that credit union Members pay higher rates, purchase unnecessary financial products, have higher default rates, or experience dissatisfaction. In fact, credit unions historically offer lower loan rates and are willing to grant small loans to Members. OCTFCU's default rate is a low 0.36%, and when surveyed, 93% of our Members indicate that they are "satisfied" or "very satisfied" with the service they receive.

OCTFCU prides itself on offering fast, efficient, and convenient delivery of our loan products. For most of our consumer loans, we offer a multi-featured open-end loan plan. Members need only complete and sign one loan agreement, minimizing the number of times they must come to the credit union to provide their signature. Members can then fund all advances under their open-end loan plans by phone or Internet. Open-end plans are more efficient -- less paperwork and documents produced, less staff to process requests, and funds are disbursed to our Members quickly, generally the same day. Not only is this a convenience for our Members, but also allows for increased efficiencies that result in lower costs and, therefore, lower loan rates for our Members.

Without multi-featured open-end plans, we will be forced to convert to closed-end lending, driving Members into the branches to complete closed-end loan documents for each advance. This will inconvenience Members; not only those Members funding loans, but all Members whose wait time will increase due to the increased branch volumes. We should also consider how closed-end lending will inconvenience Members that are not close to one of our branches. For example, out of state Members will have to wait for loan proceeds until we can obtain properly signed closed-end lending forms.

Not only is closed-end lending an inconvenience to the Members, but additional Members in the branches will also result in increased costs to the credit union in the form of additional branch staff and requiring future branches to be built on a larger scale to accommodate more foot traffic. Increased costs will translate into higher loan rates to the Members.

In addition to the significant impact to convenience and service, there are also high costs associated with converting to closed-end lending, including: programming our IT systems, converting loan forms, developing internal processes, revising and printing marketing materials, and training teammembers. We are also concerned with continued regulatory changes, as the FRB has stated they will continue with the review of Regulation Z in stages. If we are forced to convert to closed-end lending and the FRB then makes regulatory changes to the closed-end regulations, we may be forced to change processes, forms, programming, etc. a second time.

Providing multi-featured open-end loan plans allows credit unions to compete in the auto loan market on a direct loan basis and without having to offer the indirect lending channel. Of the total open-end lending advances made at OCTFCU in the past 12 months, 50% percent of the total number and 79% of the total dollars advanced have been for the purchase of a new or used auto. Forcing credit unions to convert from multi-featured open-end lending to closed-end will result in credit unions losing their competitive position in the auto loan market. If we are unable to match the convenience of automobile dealers, Members are likely to take the path of least resistance and fund their loans directly from the dealers and at higher loan rates.

Multi-featured open-end lending has been permitted under Regulation Z for 25 years. This open-end lending program has allowed Members the convenience of funding loans how, when, and where it is convenient for them, and to build long-term relationships with their credit union. One of the criteria under the definition of open-end lending is that the creditor reasonably contemplates repeated transactions. At OCTFCU, the average life of an automobile loan is just over two years (27 months). A repeat transaction for the Member's next automobile loan is reasonably expected. Our records show that our Members do conduct repeat transactions. For the period of June 2004 to June 2007, 82,000 OCTFCU Members took an initial advance under their open-end plan; 29,000 took a second advance; 12,000 took a third advance; and 12,000 took their fourth or greater advance.

We feel that the proposed changes that would eliminate multi-featured open-end lending are unnecessary, would cause credit unions an undue burden to convert to closed-end lending and would have a negative impact on our Members. The credit union philosophy of "People Helping People" is further facilitated by open-end lending by giving credit unions the ability to assist Members quickly and without them having to sign multiple times for advances that are often times only a few hundred dollars.

Change-In-Terms Notices

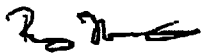
The proposal would increase the notification period for a change-in-terms from 15 days to 45 days. We believe that the 15-day notice is adequate to allow Members to make informed decisions or to take action on their part.

Currently, advance notice is not required for an increased rate due to delinquency or default. The proposal would require a 45-day advance notice. The proposed changes to the applications and solicitations section regarding penalty pricing adequately discloses to consumers the penalty rate and triggering events. Therefore, we believe that advance notice should not be required as the penalty rate and triggering terms are clearly disclosed and the increased rate is in direct response to the consumer's action and within their control.

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Thank you for the opportunity to express our views on the proposed changes to Regulation Z and open-end lending. We urge you to thoroughly weigh the consequences of the proposed changes including the direct and indirect negative impact on consumers, our Members. If we are to remain competitive in the financial industry and continue to assist our Members with their financial service needs, we must be allowed to continue to offer the added convenience that multi-feature open-end lending provides.

Sincerely,



Rudy Hanley
President/CEO

cc: Credit Union National Association
California Credit Union League